

SPIC

Nourishing growth

Southern Petrochemical Industries Corporation Limited

35th ANNUAL REPORT 2004-05

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Southern Petrochemical Industries Corporation Limited

Board of Directors

Dr A C Muthiah	Chairman
Ashwin C Muthiah	Vice Chairman
Babu K Verghese	Managing Director
M G Thirunavukkarasu	Finance Director
Rameshram Mishra, IAS	Director
K Gnanadesikan, IAS	Director
Leena Nair, IAS	Director
Dr K U Mada	Director
N R Krishnan	Director
S Venkitaramanan	Director
S Rajagopal	Director
Jawahar Vadivelu	Director
M R Srinivasan	Director
V R Mehta	Director
P C Ghosh	Director
K B N Murthy	Director

Company Secretary

N Ramakrishnan

Auditors

Fraser & Ross
Chartered Accountants, Chennai

Bankers

Indian Bank	Allahabad Bank	State Bank of Bikaner and Jaipur
Bank of Baroda	Canara Bank	Central Bank of India
Dena Bank	Indian Overseas Bank	Oriental Bank of Commerce
Punjab National Bank	Punjab and Sind Bank	State Bank of India
State Bank of Patiala	Union Bank of India	State Bank of Travancore
Syndicate Bank	Tamilnad Mercantile Bank Limited	The South Indian Bank Limited
Andhra Bank	The Bank of Rajasthan Limited	Bank of India

Registered Office

73 Armenian Street, Chennai 600 001

Principal Office

SPIC House, 88 Mount Road
Guindy, Chennai 600 032
Voice: +91.44.22350245
Fax: +91.44.22352163
Email: spiccorp@spic.co.in
Corporate website: www.spic.co.in

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SOUTHERN PETROCHEMICAL INDUSTRIES CORPORATION LIMITED

Registered Office: 73 Armenian Street, Chennai - 600 001.

Principal Office: SPIC House, 88 Mount Road, Guindy, Chennai - 600 032.

NOTICE

NOTICE is hereby given that the **THIRTY-FIFTH ANNUAL GENERAL MEETING** of the Members of Southern Petrochemical Industries Corporation Limited will be held on Thursday, 29 September 2005 at 3.15 P.M. at Rajah Annamalai Hall, Chennai - 600 108, to transact the following business:

ORDINARY BUSINESS

1. To receive, consider and adopt the audited Balance Sheet of the Company as at 31 March 2005 and the Profit and Loss Account for the year ended on that date and the Reports of the Directors and Auditors thereon.
2. To elect a Director in place of Thiru Ashwin C Muthiah, who retires by rotation and, being eligible, offers himself for re-election.
3. To elect a Director in place of Dr K U Mada, who retires by rotation and, being eligible, offers himself for re-election.
4. To elect a Director in place of Thiru Babu K Verghese, who retires by rotation and, being eligible, offers himself for re-election.
5. To appoint Auditors and fix their remuneration. Fraser & Ross, the retiring Auditors are eligible for re-appointment.

SPECIAL BUSINESS

6. To consider and if thought fit, to pass, with or without modification, the following resolution as an ORDINARY RESOLUTION:
"RESOLVED THAT Thiru K Gnanadesikan, IAS, whose period of office shall be liable to determination by retirement of Directors by rotation, be and is hereby appointed a Director of the Company."
7. To consider and if thought fit, to pass, with or without modification, the following resolution as an ORDINARY RESOLUTION:
"RESOLVED THAT Selvi Leena Nair, IAS, whose period of office shall be liable to determination by retirement of Directors by rotation, be and is hereby appointed a Director of the Company."

(By Order of the Board)

For SOUTHERN PETROCHEMICAL
INDUSTRIES CORPORATION LTD.

Place : Chennai
Date : 25 July 2005

N RAMAKRISHNAN
Secretary

Notice

NOTES:

1. **A MEMBER ENTITLED TO ATTEND AND VOTE AT THE MEETING IS ENTITLED TO APPOINT A PROXY TO ATTEND AND ON A POLL, TO VOTE INSTEAD OF HIMSELF AND THE PROXY NEED NOT BE A MEMBER OF THE COMPANY. THE INSTRUMENT APPOINTING THE PROXY TO BE VALID SHALL BE DEPOSITED AT THE REGISTERED/PRINCIPAL OFFICE OF THE COMPANY NOT LATER THAN FORTY-EIGHT HOURS BEFORE THE TIME FIXED FOR HOLDING THE MEETING.**
2. Explanatory Statement of material facts pursuant to Article 76 of the Articles of Association read with Section 173(2) of the Companies Act, 1956, for Item Nos. 6 and 7 of the Notice is annexed hereto.
3. The Register of Members and the Share Transfer Register of the Company will remain closed from Tuesday, 20 September 2005 to Thursday, 29 September 2005 (both days inclusive).
4. Members/Proxies should bring the Attendance Slip duly filled in for attending the Meeting. For shares held in dematerialised form, the Depository Participant (DP) ID and Client ID numbers should be indicated in the Attendance Slip.
5. For shares held in physical form, any change in address/other details may be intimated immediately to the Registrar and Transfer Agents viz., Cameo Corporate Services Limited, "Subramanian Building", 1 Club House Road, Chennai - 600 002 by quoting the Folio Number(s). For shares held in demat form, change in address/other details may be intimated directly to the Members' DP.
6. As per the requirements of Section 205A of the Companies Act, 1956, the Company has transferred unclaimed dividends up to 1993-94 to the General Revenue Account of the Central Government and in respect of 1994-95 to 1996-97 to the Investor Education and Protection Fund constituted by the Central Government. In respect of the amounts remaining in the Unpaid Dividend Accounts for 1997-98 and thereafter, the Company would transfer the same, at the expiry of seven years, to the aforesaid Fund. Upon such transfer, a Member shall have no claim against the Fund or the Company regarding his unpaid dividend. Members are therefore requested to promptly lodge their claims for unpaid dividend, if any, in respect of the years 1997-98 to 2000-01 with the Registrar and Transfer Agents or the Company.
7. The Company's Equity Shares are listed at the National Stock Exchange. Annual listing fee has been paid to the said Exchange in time.
8. MEMBERS HOLDING SHARES IN PHYSICAL FORM ARE ENCOURAGED TO NOMINATE A PERSON TO WHOM THEIR SHAREHOLDING IN THE COMPANY SHALL VEST IN THE EVENT OF DEMISE. Nomination forms will be sent to the Members on request by the Registrar and Transfer Agents.



Annexure to Notice

Details of the Directors seeking appointment/re-appointment at the 35th Annual General Meeting vide Item Nos. 2, 3, 4, 6 and 7 of the Notice dated 25 July 2005

[Pursuant to Clause 49(VI)(A) of the Listing Agreement]

The resume in brief/other details of the Directors, whose re-election/appointment is for the consideration of the Members at the ensuing 35th Annual General Meeting, are furnished hereunder:

Thiru Ashwin C Muthiah

Thiru Ashwin C Muthiah, 39, holds a Masters' degree in business administration. He was appointed a Director of the Company on 18 December 1994.

Thiru Ashwin C Muthiah holds Directorships in the following public companies, namely, Mitsuba SICAL India Ltd, SICAL Yamatake Ltd, SPIC-JEL Engineering Construction Ltd, The SDB CISCO India Ltd, Vopak SICAL Terminal Ltd, PSA SICAL Terminals Ltd, SICAL CWT Distriparks Ltd, South India Corporation (Agencies) Ltd, Tamilnadu Petroproducts Ltd and Technip India Ltd. He is also a Director of Indo-Jordan Chemicals Company Ltd, Jordan (foreign company) and MAC Spin Foundation, ACM Educational Foundation and ACM Medical Foundation (incorporated under Section 25 of the Companies Act, 1956).

Thiru Ashwin C Muthiah holds positions in various Board-Committees; as the Chairman of the Management Committees of the Company and South India Corporation (Agencies) Ltd and as a Member of the Remuneration Committee and the Finance Committee of the Company, Audit Committee of South India Corporation (Agencies) Ltd and the Share Transfer & Shareholders'/Investors' Grievance Committee of Tamilnadu Petroproducts Ltd.

Dr K U Mada

Dr K U Mada, 71, holds M.A., Ph.D., degrees in Economics. He was appointed a Director of the Company on 29 May 1993. He was formerly Executive Director of Industrial Development Bank of India Ltd (IDBI). He is the Chairman of the Audit Committee and the Remuneration Committee of the Board of Directors.

Dr Mada is a Director of Lupin Ltd, Natco Pharma Ltd, Hotel Leelaventure Ltd, Asian Electronics Ltd, Uttar Pradesh Industrial Consultants Ltd and Tamilnadu Petroproducts Ltd.

Dr Mada also holds positions in various Board-Committees; as the Chairman of the Audit Committee of Lupin Ltd, the Shareholders'/Investors' Grievances Committee of Natco Pharma Ltd and Hotel Leelaventure Ltd; and, as a Member of the Audit Committee of Natco Pharma Ltd, Tamilnadu Petroproducts Ltd and Hotel Leelaventure Ltd, the Shareholders' and Investors' Grievance Committee of Lupin Ltd and the Remuneration Committee of Hotel Leelaventure Ltd.

He has also authored the book, "A Journey Through Development Banking", providing an insight into the evolutionary years of IDBI as a development bank.

Thiru Babu K Verghese

Thiru Babu K Verghese, 61, holds a B.Tech Degree in chemical engineering. Since 1972, he has been associated with the Company/ other ventures promoted by the Company in various capacities. He was the Deputy Managing Director of the Company from 1 October 2001 and was elevated as Managing Director of the Company with effect from 1 April 2002.

Before joining the Company as the Deputy Managing Director, he was the Deputy Chairman and Managing Director of Indo-Jordan Chemicals Company Ltd, Jordan.

Thiru Babu K Verghese is a Director of Indo-Jordan Chemicals Company Ltd, Jordan, Industries Chimiques Du Senegal, Paris (foreign companies), SPIC Holdings and Investments Ltd, Fertiliser Association of India, Delhi, Tamilnadu Petroproducts Ltd, Matsu Enterprises (P) Ltd and K'Chira International (P) Ltd. He is a Member of the Management Committee of the Company.

Thiru K Gnanadesikan, IAS

Thiru K Gnanadesikan, IAS, 46, is the Finance Secretary to the Government of Tamilnadu. He is one of the nominees of Tamilnadu Industrial Development Corporation Ltd on the Board of Directors of the Company. He was appointed Director on 27 June 2005. He is also a Member of the Audit Committee of the Board of Directors.

Thiru Gnanadesikan is also a Director of Tamilnadu Industrial Development Corporation Ltd, Tamilnadu State Marketing Corporation Ltd, Tamilnadu Spirit Corporation Ltd, Tamilnadu Newsprint and Papers Ltd, Tamilnadu Road Development Company Ltd, Tamilnadu Urban Infrastructure Financial Services Ltd and Tamilnadu Urban Infrastructure Trustee Company Ltd.

Selvi Leena Nair, IAS

Selvi Leena Nair, IAS, 47, is the Agricultural Production Commissioner and Secretary, Agriculture Department, Government of Tamilnadu. She is one of the nominees of Tamilnadu Industrial Development Corporation Ltd on the Board of Directors of the Company. She was appointed Director on 25 July 2005. She is also a Member of the Shareholders' and Investors' Grievance Committee of the Board of Directors.

Selvi Leena Nair is also a Director of Tamilnadu Agro Industries Development Corporation Ltd, Tamilnadu Civil Supplies Corporation Ltd and Coffee Board, Bangalore.

Notice / Financial Highlights

EXPLANATORY STATEMENT

PURSUANT TO SECTION 173(2) OF THE COMPANIES ACT, 1956, READ WITH ARTICLE 76 OF THE ARTICLES OF ASSOCIATION OF THE COMPANY

The following Explanatory Statement sets out the material facts referred to in Item Nos. 6 and 7 of the Notice convening the 35th Annual General Meeting:

Item No. 6

Thiru K Gnanadesikan, IAS, was appointed an Additional Director of the Company by the Board of Directors at the Meeting held on 27 June 2005.

As per the provisions of Section 260 of the Companies Act, 1956, read with Article 106 of the Articles of Association of the Company, Thiru Gnanadesikan will hold office up to the date of this Annual General Meeting. Notice proposing his candidature for appointment as Director under Section 257 of the Companies Act, 1956, together with the requisite deposit has been received from a Member.

The Board commends the election of Thiru Gnanadesikan as Director of the Company for the approval of Members.

Memorandum of Interest

Except Thiruvalargal K Gnanadesikan, IAS, Rameshram Mishra, IAS and Selvi Leena Nair, IAS, none of the Directors of the Company is interested in this resolution.

Item No. 7

Selvi Leena Nair, IAS, was appointed an Additional Director of the Company by the Board of Directors at the Meeting held on 25 July 2005.

As per the provisions of Section 260 of the Companies Act, 1956, read with Article 106 of the Articles of Association of the Company, Selvi Leena Nair will hold office up to the date of this Annual General Meeting. Notice proposing her candidature for appointment as Director under Section 257 of the Companies Act, 1956, together with the requisite deposit has been received from a Member.

The Board commends the election of Selvi Leena Nair as Director of the Company for the approval of Members.

Memorandum of Interest

Except Selvi Leena Nair, IAS, Thiruvalargal Rameshram Mishra, IAS and K Gnanadesikan, IAS, none of the Directors of the Company is interested in this resolution.

(By Order of the Board)

For SOUTHERN PETROCHEMICAL
INDUSTRIES CORPORATION LTD.

Place : Chennai
Date : 25 July 2005

N RAMAKRISHNAN
Secretary



Financial Highlights

Year ended 31 March	SPIC Consolidated			SPIC		
	2005 USD Million	2005 Rs in lac	2004 Rs in lac	2005 USD Million	2005 Rs in lac	2004 Rs in lac
Total income	607.20	265590.37	185487.72	486.83	212940.34	150836.53
PBDIT	70.26	30730.36	14393.71	53.19	23265.54	8078.11
Depreciation	20.52	8973.83	6735.46	9.67	4227.77	4124.58
Profit before tax	5.52	2412.92	1221.96	2.23	974.42	(941.38)
Profit after tax	5.24	2292.68	838.65	2.23	974.42	(941.38)
Equity share capital	22.99	10054.77	10054.77	22.99	10054.77	10054.77
Reserves and surplus	251.71	110100.04	112751.68	231.93	101446.48	105749.73
Networth	25.24	11038.07	10674.87	7.15	3126.55	2112.62
Gross fixed assets	803.62	351504.17	309868.83	576.21	252033.55	252731.38
Net fixed assets	421.17	184221.72	167189.72	289.48	126617.65	133865.58
Total assets	1300.30	568752.59	533269.47	747.67	327031.95	348846.71

As on 31 March 2005, USD 1 = Rs. 43.74.

Directors' Report

DIRECTORS' REPORT

Your Directors present their 35th Annual Report together with the audited statement of accounts of the Company for the year ended 31 March 2005.

OPERATING RESULTS

(Rupees in crore)

	2004-2005	2003-2004
Sales and services	1900.53	1488.89
Other income	16.33	19.48
Net gain on restructuring of floating rate notes	212.54	—
Total income	2129.40	1508.37
Manufacturing and other costs	1896.75	1427.58
Profit before interest, depreciation and tax	232.65	80.79
Interest	180.63	48.95
Depreciation	42.28	41.25
Total expenditure	2119.66	1517.78
Profit/(loss) before tax	9.74	(9.41)
Provision for tax	—	—
Profit/(loss) after tax	9.74	(9.41)

SPIC operates its business through four divisions:

1. The **Fertilizer** Division manufactures fertilizers and fertilizer intermediates.
2. The **Pharmaceuticals** Division manufactures Penicillin-G Potassium (fermentation-based), Active Pharmaceutical Ingredients, finished dosage products, industrial enzymes and plant-based nutraceuticals.
3. The **Engineering/Construction Services** Division offers specialized and turnkey project-based solutions mainly in fertilizers, chemicals and petrochemicals, oil and gas and power.
4. The **Agri-business** Division offers products for sustainable agricultural development with a global footprint—tissue culture plants, hybrid seeds, bio-fertilizers, bio-pest control agents for eco-friendly crop production.

SPIC's strategic investments *inter alia* in subsidiaries and joint ventures include:

Indo-Jordan Chemicals Company Limited, Jordan

Manufacture of phosphoric acid, sulphuric acid

SPIC Fertilizers and Chemicals FZE, Dubai

Manufacture of ammonia, urea

SPIC Petrochemicals Limited, India

Manufacture of polyester filament yarn (PFY), purified terephthalic acid (PTA)

Indital Chemicals Limited, India

Manufacture of synthetic resins, both liquid and powder, used in automotive, abrasives, railway brake blocks, paints and inks

Tamilnadu Petroproducts Limited, India

Manufacture of linear alkyl benzene (LAB); epichlorohydrin (ECH);

heavy alkylate; caustic soda; chlorine; hydrochloric acid; ammonium chloride; sodium hypochlorite

Technip India Limited, India

Global EPC services for refinery, oil and gas, petrochemical, chemical, fertilizer, power, environmental and pharmaceutical industries

SPIC JEL Engineering Construction Limited, India

Electro-mechanical erection works for power, petrochemical and industrial plants. Fabrication of structural, piping, ducting, tanks, vessels, non-pressure components and windmill towers, used in power, petrochemical and infrastructure sectors. Deputation of specialised manpower to various overseas project sites.

Gulf SPIC General Trading & Contracting Co. WLL, Kuwait

Specialized services for construction, operation, maintenance of refineries, petrochemicals, chemical, fertilizer plants

Tuticorin Alkali Chemicals and Fertilisers Limited, India

Manufacture of soda ash, ammonium chloride, sodium bicarbonate, ammonium bicarbonate and bio-products.

Manali Petrochemical Limited, India

Manufacture of propylene oxide, propylene glycol, polyols

SPEL Semiconductor Limited, India

Turnkey wafer sort; IC assembly; test subcontracting

OPERATIONS

Fertilizer Division

In 2004-05, despite a month long production break because of turnaround maintenance at the plants, the Company's Fertilizer Division produced 678,810 MT of urea at the Tuticorin fertilizer complex, the highest in a turnaround year and 9% more than the 621,078 MT produced in 2003-04.

Phosphatic fertilizer production was 404,181 MT, 24.5% more than the 324,570 MT produced in the previous year.

Some of the Fertilizer Division's operational and marketing achievements during 2004-05 were:

- lowest energy consumption per MT of urea since the urea plant's commissioning in 1975;
- highest sales of urea in 5 years at 661,434 MT;
- highest sales of DAP in 4 years at 369,717 MT;
- highest-ever sales of gypsum at 557,565 MT;
- highest-ever sales of aluminum fluoride at 5,905 MT; &
- for the twenty-fifth year in a row, annual fertilizer sales crossed one million MT.

The performance of the Fertilizer Division depends to a large extent on the monsoons.

The two major cropping seasons in India are the *kharif* and *rabi*. The *kharif* season is during the south-west monsoon, between June and September, in the rain-fed and irrigated parts. The *rabi* season is during the north-east monsoon, between October and December, when agricultural activity shifts to the irrigated parts.

The year 2004-05 was marked by an erratic south-west monsoon, which resulted in rainfall falling short of the seasonal long-term average by 13%.

India's 2004-05 *kharif* foodgrain production was 104 million MT, down by 11% from the previous year's 116 million MT.

The north-east monsoon, despite a good beginning, ended early with an 11% shortfall. Despite this, *rabi* production was a record



106 million MT, 10% higher than the previous year's 97 million MT. Foodgrain production in 2004-05 was 210 million MT, only 1.4% down from 213 million MT in the year-ago period.

The primary markets for the Company's fertilizers are the southern states of Tamil Nadu, Karnataka and Andhra Pradesh.

The states of Karnataka and Andhra Pradesh went through dismal south-west and north-east monsoons, with the year's rainfall about 20% below normal. Tamil Nadu got a respite after reeling under drought for the last 2-3 years, the state's 2004-05 rainfall was 4% above normal.

2004-05 was encouraging for fertilizer sales in India. All-India sales of urea, at 19.97 million MT, were nearly 2% higher than the previous year's 19.66 million MT; sales of DAP, another major fertilizer, were 6.03 million MT, an increase of 8% from the previous year's 5.58 million MT sales.

India's southern states consumed 6% more urea in 2004-05, 3.3 million MT compared with 3.1 million MT in the previous year. Southern India's consumption of DAP rose substantially, up by 37%, at 1.1 million MT from 0.8 million MT a year ago.

In line with the improved sales of fertilizer in its primary markets, SPIC's fertilizer sales volume improved by 4% on-year in urea, from 635,727 MT to 661,434 MT and 17% on-year in DAP, from 316,096 MT to 369,717 MT.

Fertilizer sales (in MT)

Product	2002-03	2003-04	2004-05	% change over last year
Urea	642,878	635,727	661,434	4%
DAP	290,038	316,096	369,717	17%
Complex fertilizers	52,524	14,259	32,172	126%
Gypsum (Fert. grade)	54,260	70,365	89,547	27%
TOTAL	1,039,700	1,036,447	1,152,870	11%

Collections exceeded sales realization, lowering the outstanding dues from debtors.

The Fertilizer Division's improved performance was in no small part due to the Company's intensified focus on enhancing customer delight. The Company put the dealers through innovative programmes such as farmer-oriented market training and family meets. SPIC also offers customized advice to farmers on nutrient applications, based on scientific soil analysis and efficient use of the limited irrigation resources at the micro-level.

Commercial Agriculture, a programme on All India Radio, discusses issues related to modern commercial farming and raising productivity. The Company sponsored the programme for 52 weeks.

Awards won by Fertilizer Division in 2004-05

- ❖ *National Safety Award* from the British Safety Council, UK, for *best safety performance* in 2003.
- ❖ Fertiliser Association of India's award for *best technical innovation* in 2003-04. The scheme of chilling carbon dioxide gas at suction of the booster compressor in urea plant has resulted in significant energy savings.

- ❖ Fertiliser Association of India's award for *best environmental protection* in 2003-04: SPIC's NP/NPK fertilizer plant was the best among India's fertilizer units.
- ❖ *Star Award* for 2003 from the National Safety Council, Tamil Nadu Chapter.
- ❖ Indian Chemical Manufacturers Association's *certificate of merit* for receiving ISO9001 and ISO14001 certification.
- ❖ *Commendation certificate* from the Tuticorin Customs Commissionerate for being one of the top ten importers at Tuticorin Port during 2003-04.
- ❖ Tuticorin Port Trust's 2003-04 *best importer* award for fertilizer raw materials.

Major business influence - the Government of India's fertilizer policy

Fertilizer prices are controlled by the Government of India. The Government fixes the Maximum Retail Price at which fertilizers are to be sold to the farmers. To ensure a fair return to the manufacturer, the Government computes the Retention Price and reimburses the difference between the Retention Price and the Maximum Retail Price to the manufacturer as Subsidy. The Retention Pricing Policy earlier, was unit specific. Consequent to the decontrol of phosphatic fertilizers in 1992, the unit specific Retention Price and Subsidy were replaced by a uniform rate of concession to all manufacturers. The Retention Price for urea is computed based on the feedstock/fuel used (naphtha, furnace oil, coal, gas, etc.), specific consumption norms applicable, conversion cost, selling expenses, capital related charges and freight.

The Government of India introduced the New Pricing Scheme (NPS) for urea units, to be implemented in three stages, with effect from 1 April 2003. The NPS replaced the Retention Price Scheme.

Stage 1 of the NPS, of one-year duration, was from 1 April 2003 to 31 March 2004. Stage 2 is of two years duration from 1 April 2004 to 31 March 2006. Stage 3 will begin on 1 April 2006.

Under the NPS, the modalities of stage 3, which begins on 1 April 2006, would be decided by the Department of Fertilizers, after a review of the implementation of stages 1 and 2. The Government of India has constituted a working group under the chairmanship of Dr Y K Alagh to review the effectiveness of stages 1 and 2 of the NPS and to formulate a policy for urea units for stage 3. This working group has constituted a number of sub-committees to deal, among other things, with the following issues:

- future vision of urea pricing policy, within a time frame;
- pricing and availability of feedstock;
- movement and distribution of urea;
- costs and supplies; and
- demand and supply of urea.

Based on the industry's views, the working group is expected to submit its recommendations to the Government of India for the policy to be adopted in stage 3.